

Internal Audit of the Plurinational State of Bolivia Country Office

Office of Internal Audit
and Investigations (OIAI)
Report 2014/10

May 2014



Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Plurinational State of Bolivia country office. The audit sought to assess the governance, risk management, and control processes over the country office's activities, and covered the period from January to December 2013. The audit team visited the office from 2 to 13 December 2013.

The 2013-2017 country programme is built around three main programme component results aiming to support the Government of Bolivia. They are: *Quality social services with equity; Protection of children and adolescents; and Monitoring and knowledge generation for promotion of child rights*. There is also a cross-sectoral component. The approved country programme has a budget ceiling of US\$ 66.8 million, of which about US\$ 6.8 million was expected to be from Regular Resources (RR), while the Other Resources (OR) component was US\$ 60 million. RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR are contributions that may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself, as OR.

The UNICEF country office is located in La Paz and has two zone offices, one in Sucre and the other in Cochabamba. It has a total workforce of 61 approved posts, of which two were vacant at the time of the audit.

Action agreed following the audit

In discussion with the audit team, the country office has agreed to take a number of measures. The report contains 10 agreed actions. Two of them are being implemented as high priority; that is, to address issues that require immediate management attention. They are as follows.

- The office agrees to review its programme structure and implementation strategy. In view of its current funding constraints, it also agrees to identify opportunities to leverage resources from new partners.
- The office agrees to strengthen application of the results-based management principle in programming, and to establish quality-assurance mechanisms to that effect.

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over the country programme were generally established and functioning during the period under audit. The Bolivia country office has prepared action plans to address the issues raised.

The Bolivia country office, with support from the Regional Office, and OIAI intend to work together to monitor implementation of the measures that have been agreed.

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Objectives

The objective of the country office audit is to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over a number of key areas in the office.

The audit observations are reported under three headings: governance, programme management and operations support. The introductory paragraphs that begin each of these sections explain what was covered in that particular area, and between them define the scope of the audit.

Audit observations

1 Governance

In this area, the audit reviews the supervisory and regulatory processes that support the country programme. The scope of the audit in this area includes the following:

- **Supervisory** structures, including advisory teams and statutory committees.
- **Identification** of the country office's priorities and expected results and clear communication thereof to staff and the host country.
- **Staffing structure** and its alignment to the needs of the programme.
- **Performance measurement**, including establishment of standards and indicators to which management and staff are held accountable.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management**: the office's approach to external and internal risks to achievement of its objectives.
- **Ethics**, including encouragement of ethical behaviour, staff awareness of UNICEF's ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies.

All the above areas were covered in this audit.

The audit noted that key controls functioned well in a number of areas. For example, key performance indicators had been identified for both programme and operations. Programme performance indicators were discussed during programme coordination meetings and a consolidated monthly report was presented and discussed during country management team (CMT) meetings. The office had also issued a table of authority that documented the roles/authorities delegated to members of staff.

Besides the CMT, other statutory and advisory committees had also been established with defined terms of reference; they included the contract review committee (CRC), which reviews supply and consultancy contracts over a certain value, and the joint consultative committee (JCC), which is the forum in which management and the Staff Association discuss matters of joint interest.

The office had conducted various self-assessments. It also received support from the Regional

Office, as noted from the trip reports of four regional advisers that visited the office in 2013.

Country programme structure and resource mobilization strategy

The budget for the current (2013-2017) country programme was US\$ 66.8 million, of which US\$ 60 million (or 90 percent) was other resources (OR). The country programme management plan (CPMP)¹ had indicated that 32 percent of the required OR had been secured from three donors by April 2012 – which was prior to the start of the current country programme. The current programme had been designed with an expectation that these three donors would continue to support programme activities in the country. However, it looked as if these expectations would not be met. The audit noted two particular instances where the office was either facing or likely to face a severe shortfall.

The first case concerned the office's support to implementation of the FORTALESSA/UNICEF Project. This long-term (2011-2016) service delivery project was to be implemented in 29 municipalities providing technical assistance and support to the Ministry of Health at national and departmental levels to improve key elements of the health system. The project had the support of a donor that had promised to provide US\$ 18.4 million of US\$ 21.1 million required. In 2013, however, implementation of the project stopped with the departure of the donor from the country at the request of the Government.

At that time of the audit, the total amount received for this project was US\$ 6 million (33 percent of the amount committed by the donor). The donor requested a refund of unused funds, which totalled US\$ 1.9 million (32 percent of the total received). This disruption affected the implementation of the programme activities. Furthermore the office was forced to terminate contracts of technical experts that had been recruited to support implementation of the project.

In the second case, the office had expected to receive US\$ 22.1 million from another donor based on a 2011 proposal that was expected to cover activities from 2012 to 2020. At the time, the office had had a reasonable expectation that the proposal would be approved; it was submitted to one of UNICEF Bolivia's top donors, from which the office had received approximately US\$ 9 million for the period ending in December 2010. However, as of December 2013, the donor had not formally responded to the proposal. The planned activities therefore risked not being implemented due to the lack of funding.

The audit also noted that the proposed projects to be implemented with the support of the two donors were service delivery projects that were not in line with the 2013-2017 country programme strategy, which was to move away from project-based service delivery and engage in capacity development.

The office indicated that the lack of funds for project-based proposals initiated before the start of the country programme was an opportunity to review its programme strategy and discontinue donor-driven projects that focused on service delivery activities. The office had also started reviewing its resource-mobilization strategy. The need to review the programme strategies and implementation structure was being discussed with the Government in the light of the significant fundraising constraints that had arisen in 2013. Discussions on ways forward had also been initiated with regional office. However, no concrete actions were in place to

¹ When preparing a new country programme, country offices prepare a CPMP to describe, and help budget for, the human and financial resources that they expect will be needed.

address the funding gaps.

Agreed action 1 (high priority): The office agrees to, with support from the Regional Office, review its programme structure and implementation strategy in the light of its current funding constraints and ensure the revised structure is documented. The strategy will reflect the shift from a project delivery programme to a capacity development programme and will also include a review of opportunities to leverage resources from multiple sources.

Target date for completion: August 2014

Responsible staff members: Representative, Deputy Representative, Chief of Operations, and Regional Office

Implementation of the programme structure

To support the new (2013-2017) country programme, the office had made two key changes to the programme structure. First, the office had analyzed the need for, and benefits of, its existing zone-office structure, and had made changes to the number and role of zone offices. The number had been reduced from six to two for the 2013-2017 country programme; five zone offices had been closed, one (Cochabamba) was retained and a new one established in Sucre. The 2013-2017 CPMP noted that the cost of managing the zone offices would be reduced. Second, a new knowledge management section had been created. The audit reviewed implementation of these changes and made the following observations.

Zone offices: The governance and accountability of the zone offices had been changed to increase their autonomy and effectiveness. The audit noted however that there were weaknesses in the collaboration between the zone offices and the programme sections in La Paz. For example, although there were some child-protection programme activities to be conducted in the zone offices, in practice it was mainly the country office in La Paz that implemented them. Also, the implementation of protection activities was monitored directly by La Paz heads of sections instead of the heads of the zone offices. Under the new country programme accountability structure, the zone offices should have been implementing and supervising these activities.

Knowledge management: In the CPMP, the office had mentioned a lack of internal technical expertise with regard to knowledge management and partnership. A knowledge management section had therefore been created to support the cross-cutting issues, and a knowledge management chief had been recruited and had joined the office at the end of April 2013. Discussions with staff and review of the knowledge management workplans indicated that the new structure had not been fully articulated and understood; this complicated coordination among sections.

The audit was informed that a standard operating procedure and a knowledge management strategy were to be developed to strengthen those links, and to clarify staff roles and responsibilities accordingly. The audit also noted that the majority of staff with key positions in programmes, including the deputy representative, all chiefs of programmes and the Sucre zone-office chief, had joined the office in late 2012 or in 2013; that explained some of the delays noted in the implementation of the changes introduced with the new country programme structure.

Agreed action 2 (medium priority): The office agrees to develop a standard operating procedure that will include mechanisms for strengthening collaboration among various

programmes, the knowledge management sector and the zone offices.

Date reported by the office as that by which action had been taken: March 2014

Responsible staff members: Deputy Representative

Governance area: Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over governance, as defined above, needed improvement to be adequately established and functioning.

2 Programme management

In this area, the audit reviews the management of the country programme – that is, the activities and interventions on behalf of children and women. The programme is owned primarily by the host Government. The scope of the audit in this area includes the following:

- **Resource mobilization and management.** This refers to all efforts to obtain resources for the implementation of the country programme, including fundraising and management of contributions.
- **Planning.** The use of adequate data in programme design, and clear definition of results to be achieved, which should be specific, measurable, achievable, realistic and timebound (SMART); planning resource needs; and forming and managing partnerships with Government, NGOs and other partners.
- **Support to implementation.** This covers provision of technical, material or financial inputs, whether to governments, implementing partners, communities or families. It includes activities such as supply and cash transfers to partners.
- **Monitoring of implementation.** This should include the extent to which inputs are provided, work schedules are kept to, and planned outputs achieved, so that any deficiencies can be detected and dealt with promptly.
- **Reporting.** Offices should report achievements and the use of resources against objectives or expected results. This covers annual and donor reporting, plus any specific reporting obligations an office might have.
- **Evaluation.** The office should assess the ultimate outcome and impact of programme interventions and identify lessons learned.

All the above areas were covered in this audit.

The audit noted that key controls functioned well in a number of areas. For example, the office conducted annual and semi-annual reviews of the country programme together with key implementing partners.

Results-based planning

UNICEF policy is that results-based management should be incorporated into the way programmes are designed and run. This demands the use both of targets, and of indicators that can be used to measure progress towards them. There should also be clear baselines against which progress can be measured. These same criteria should also be incorporated into the workplans agreed with partners.

Results formulation: The office had been reviewing some aspects of its programme management, and had noted that the results identified in the 2008-2012 results matrix had not been well formulated. Some of them were very difficult to measure, and for a number of results, no baselines were available. The audit noted the same weaknesses in the 2013-2017 country programme results matrix.

The lack of baselines and adequate indicators for monitoring progress at both outcome and output level was a risk to UNICEF's capacity to adequately plan and monitor the country programme results.

Workplans with partners: The intermediate results (IRs)² included in the signed workplans also need to be Specific, Measurable, Achievable, Relevant, and Time-bound (SMART). Also quantitative or qualitative indicators, including baselines, targets, means of verification and milestones, should be developed and used to monitor annual progress and actual achievement *vis-à-vis* the IRs.

In 2012 and 2013, the office had developed and signed workplans with various implementing partners. The audit reviewed a sample of the 2013-2014 workplans and noted that there were no indicators, targets, milestones and/or means of verifications in the signed workplans, meaning that there was no mechanism in place to monitor and report progress.

The audit also noted discrepancies between IRs included in the CPAP³ results matrix, and those included in the result assessment module (RAM) in VISION⁴ and in the signed workplans. For example, IR 3.2.1 in PCR 3 (*Monitoring and knowledge generation for the promotion of child rights*) reads as follows in the CPAP matrix: “*Children and young people express themselves to influence policies and practices affecting their lives*”. In VISION, it read: “*Boys’ and girls’ opinion is considered in the implementation and monitoring of laws, policies and practices that affect them and help identify inequalities and inequities at all autonomous levels*”. As defined, those two IRs were different, and required different indicators, baselines and means of verification to assess their progress.

Agreed action 3 (high priority): The office has agreed to strengthen its results-based programming and establish quality assurance mechanisms to ensure the following:

- i. Defined indicators, targets, baselines and means of verifications to measure results.
- ii. Consistency, clear linkages and alignment between outcome and output results defined in the CPAP and the results included in the signed workplans.

Target date for completion: May 2014

Responsible staff members: Deputy Representative

Harmonized Approach to Cash Transfers (HACT)

Offices are required to implement the Harmonized Approach to Cash Transfers (HACT). With HACT, the office relies on implementing partners to manage and report on use of funds provided for agreed activities. This reduces the amount of supporting documentation UNICEF demands from the partner, thus cutting bureaucracy and transaction costs.

HACT makes this possible by requiring offices to systematically assess the level of risk before making cash transfers to a given partner, and to adjust their method of funding and assurance practices accordingly. HACT therefore includes micro-assessments of the individual implementing partners that are either government entities or NGOs. There should also be audits of implementing partners expected to receive more than US\$ 500,000 during the programme cycle. There should also be a macro-assessment of the country’s financial management system. As a further safeguard, the HACT framework requires offices to carry

² UNICEF programmes plan for results on two levels. A programme component result (PCR) is an output of the country programme, against which resources will be allocated. An intermediate result (IR) is a description of a change in a defined period that will significantly contribute to the achievement of a PCR.

³ The CPAP is a formal agreement between a UNICEF office and the host Government on the Programme of Cooperation, setting out the expected results, programme structure, distribution of resources and respective commitments during the period of the current country programme.

⁴ VISION is UNICEF’s management system, introduced at the beginning of 2012.

out assurance activities regarding the proper use of cash transfers. Assurance activities should include spot checks, programme monitoring and special audits.

HACT is required for three other UN agencies (UNDP, UNFPA and WFP), and country offices should coordinate with them to ensure best use of resources.

The audit noted that the Bolivia country office had taken a number of steps to implement HACT. The 2013-2017 CPAP included the recommended provisions, and staff and implementing partners were trained in 2012 and 2013 on HACT work processes and procedures. The office had developed an assurance plan for 2012 and 2013; it included programmatic on-site review, spot checks and scheduled audits that were adequately implemented. Of the on-site reviews, 136 out of 150 had been conducted, as had 48 out of 63 planned spot checks. Five of the nine scheduled audits had also taken place in 2013. The cost of conducting of assurance activities in 2013 had been budgeted (the expenditure incurred on assurance activities amounted to US\$ 111,418).

However, the audit also noted the following.

Macro-assessment: A macro-assessment should be undertaken once per programme cycle for each country implementing the HACT framework. In Bolivia, the last macro-assessment led by the UN country team (UNCT) was in 2007. Discussion with UNDP, UNFPA and UNICEF indicated that the UNCT had decided not to conduct a macro-assessment at the time of the preparation of the current country programme; however, the audit saw no written record of this decision.

HACT governance structure: Meetings with UNDP, UNFPA and UNICEF staff involved in HACT management indicated that the extent of joint HACT implementation was limited, and the HACT UN taskforce in Bolivia had not been effective. Although UNICEF and UNFPA had implementing partners in common, there was insufficient coordination between agencies to review the result of assurance activities or other HACT-related issues.

Partner assessments: Micro-assessments evaluate a partner's financial management capacity and help determine its risk rating and the appropriate means of cash transfer (direct cash transfers, direct payments or reimbursements). In 2012 and 2013, the office assessed all implementing partners through micro-assessment, or simplified assessment using a less complex assessment checklist, or through spot checks. Those assessments provided an overall risk rating for partners that was recorded in VISION.

This was, however, not consistent with HACT framework – under which, to assign a risk rating, the partners must be micro-assessed by a competent audit firm, not UN staff. Spot checks cannot therefore be used to assign risk ratings (the VISION report showed that 44 out of 157 risk ratings were based on spot checks). Furthermore there was no risk level associated with 78 out of 157 implementing partners recorded in VISION. In fact, the office did not use the risk level identified to define the most appropriate type of cash transfer.

Assurance activities: The office had developed an assurance plan for 2012 and 2013. The assurance plan included programmatic on-site review, spot checks, and scheduled audits; these were adequately implemented. However, the office had no mechanism to address issues identified in various assurance-activity reports. Neither was there any systematic follow-up of the recommendations and corrective actions in those reports. Some did require follow-up. For example, a detailed review of an audit report issued by an audit firm in

December 2013 noted that the implementing partner had provided no supporting documents for transactions amounting to approximately US\$ 272,000. The report indicated that in the absence of sufficient documentation to support the amounts, the auditor could not confirm the validity of the expenses made. At the time of the audit, the office was to meet the audit firm and the implementing partners to discuss issues identified in the report.

The office had developed HACT standard operating procedures (SOPs); these were approved by the CMT in September 2013 and shared with all staff. However, the SOPs did not comply fully with HACT requirements. For example, they did not indicate how to determine the appropriate means of cash transfer in light of a partner's risk rating. Neither did they address the need to monitor implementation of recommendations included in reports of spot checks and scheduled audits.

Agreed action 4 (medium priority): The office agrees to fully implement the Harmonized Approach to Cash Transfers (HACT) by:

- i. Ensuring that a macro-assessment is conducted for the current programme cycle.
- ii. Working with the UN in Bolivia's HACT governance committees and promoting sharing of results of assurance activities with other UN agencies.
- iii. Complying with the HACT guidelines in defining partners' risk ratings and recording them in VISION.
- iv. Establishing a mechanism for follow-up of audit recommendations included in the various assurance-activity reports.
- v. Ensuring that appropriate actions are taken to clarify the validity of expenses amounting to US\$ 272,000 included in the audit report commissioned by the country office.

Target date for completion: September 2014

Responsible staff members: Representative, Deputy Representative, Chief of Operations

Donor reporting

The audit checked a sample of two donor reports and noted that they were well-written and complied with the guidelines of UNICEF's Public Sector Alliances and Resource Mobilization Office (PARMO). However, the audit also noted that in 2013, three out of the four donor reports were submitted late, with delays of up to five months. This was despite the existence of an accountability structure and quality assurance process for donor reports, and the fact that their status was systematically reviewed by the CMT.

The office said that one report was submitted five months after the due date because it was the first time that the office had to report to a new entity (Government), and it was not clear on the reporting process.

Agreed action 5 (medium priority): The office has agreed to review its donor reporting process in order to identify and address bottlenecks, to ensure timely submission of donor reports.

Date reported by the office as that by which action had been taken: March 2014

Responsible staff member: Deputy Representative

Pilot initiatives

Pilot, or demonstration, initiatives in country offices are needed to contribute to programme knowledge, to serve as models for scaling-up, and to provide a basis for evidence-based advocacy on behalf of children. UNICEF policy states that a pilot can be classified as a research initiative, and should hence satisfy the quality criteria for scientific social research.

The audit noted that although the office promoted piloting of innovations in its 2008-2012 country programme, it did not define specific criteria for their management, and there were no guidelines on evaluating and documenting pilot innovations. Examples of pilot initiatives presented by the office included the child-friendly school intercultural initiative, which had been implemented for many years without a clear exit strategy. This programme had also not been evaluated. The other pilot project, on the child-friendly municipalities/cities programme, was started in 2011/2012 but again had not been evaluated. The lack of systematic evaluations of pilot innovations reduced the office's capacity to assess their relevancy, efficiency and effectiveness. This is especially important with pilot initiatives, because decisions should be made as to whether they are to be scaled up.

Agreed action 6 (medium priority): The office agrees to define criteria for pilot initiatives and to develop guidelines on evaluating and documenting pilot innovations for their relevancy, efficiency and effectiveness and potential for scaling up.

Target date for completion: June 2014

Responsible staff member: Deputy Representative

Programme management: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over programme management, as defined above, were generally established and functioning during the period under audit.

3 Operations support

In this area the audit reviews the country office's support processes and whether they are in accordance with UNICEF Rules and Regulations and with policies and procedures. The scope of the audit in this area includes the following:

- **Financial management.** This covers budgeting, accounting, bank reconciliations and financial reporting.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management.** This area covers maintenance, recording and use of property, plant and equipment (PPE). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation (but not the actual staffing structure, which is considered under the Governance area).
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **Information and communication technology (ICT).** This includes provision of facilities and support, appropriate access and use, security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All the areas above were covered in this audit.

The audit noted that key controls functioned well in a number of areas. For example, in 2013 the office had reviewed various work processes in order to clarify the processes and workflows. Areas reviewed had included direct cash transfers, and procurement of both individual and institutional contracts for services.

The office had a process to monitor the completion of performance assessments of staff at various phases. All performance assessments had been completed, and had been done in accordance with UNICEF procedure.

However, the audit also noted the following.

Cash transfer management

In 2013, cash transfers to partners amounted to US\$ 3.9 million (or 38 percent of the total programme expenditure).

At the beginning of 2013, the office had a large amount of outstanding direct cash transfers (DCTs), mainly funds released for 2012 activities. The status of outstanding direct cash transfers showed 66 percent over nine months in June 2013 (although this had dropped to 47 percent in September). Late programme implementation had resulted in a large amount of DCT that was outstanding over nine months at the beginning of the new country programme. Overall, DCTs carried forward at the beginning of 2013 amounted to US\$ 4.3 million.

Delays in liquidation of 2012 DCTs led to late release of subsequent DCTs, which in turn

delayed the implementation of 2013 DCT-supported activities. For example, the audit noted that at the time of audit there had been no cash disbursement to two out of a sample of five partners with signed 2013-2014 workplans.

The office had analyzed the reasons for the large percentage of outstanding DCT over nine months and noted internal and external factors. The former were linked to the VISION system. From December 2012 to September 2013, the office could not register implementing partners' DCT reports in VISION; this VISION system error affected 467 transactions amounting to US\$ 946,000 at one point, although it had been reduced to US\$ 181,000 in September 2013. The VISION system issues affecting DCTs had been reviewed with support from the Regional Office and from the Division of Financial and Administrative Management (DFAM).

The external factors included a new government regulation that required Departments and Municipalities to register all funds received through international cooperation with the Ministry of Economy and Finance. Some partners were not able to register funds in a timely manner, with delays of up to 10 months. This delayed programme implementation (and therefore of course reporting on the use of funds). At the time of the audit, the office had already started to address the identified internal and external factors leading to outstanding DCTs, and those over nine months had been reduced from 66 percent in June 2013 to 33 percent in November 2013. While this was clearly an improvement, the UNICEF standard is that there should be no DCTs outstanding over nine months.

Also, a review of transactions related to 14 implementing partners noted the following.

Links with workplans: Partners requesting DCTs, or their liquidation, normally do so on the Funding Authorization and Certificate of Expenditure (FACE) form.⁵ However, none of the FACE forms submitted to request cash transfers and liquidation were clearly linked to the signed rolling workplans, or to the activities specified in them. Instead, the amount requested and disbursed as per the signed FACE form was based on information included in the partners' annual workplans; called a *Plan Operativo Anual* (POA), these were government documents, registered with the Ministry of Planning and used by the Government to complete the FACE form. There were however no clear linkages between the POAs and activities or results included in the signed workplans – and consequently no clear linkages between the inputs received through FACE form/POAs and planned results. Discussions with government partners indicated that the POA was the only document accepted by the Government. The office stated that the POAs provided detailed activity costs that could not be reflected in the AWP. In the absence of clear linkages between the FACE form and signed workplan, there was no evidence that funded activities would contribute to expected results defined in the AWP.

The audit also noted that the implementation periods were not mentioned in any of the POAs and also not reflected in the FACE forms. In none of the transactions sampled were the funds released clearly linked, as they should have been, to a three-month implementation period. One DCT released in 2013 was related to programme activities planned for a year. Not relating direct cash transfers to a three-month activity period could result in not reporting on utilization within three months, and could therefore result in non-release of a subsequent

⁵ The Funding Authorization Certificate of Expenditure (FACE) form is used by the partner to request and liquidate cash transfers. It is also used by UNICEF to process the requests for and liquidation of cash transfers. The FACE forms should reflect the workplans, which set out the activities for which funds are being requested, or on which they have been spent. The FACE form was designed for use with the HACT framework, but can also be used outside it.

agreed amount to the implementing partner.

Agreed action 7 (medium priority): The office agrees to comply with UNICEF Financial and Administrative Policy on request, release and reporting of direct cash transfers to ensure that:

- i. Cash transfers are requested and released on a three-monthly basis, for three months' programme implementation activities as defined in the UNICEF guidance.
- ii. The amount of unliquidated cash transfers is monitored and accounted for within agreed time periods.
- iii. The cash transfer requests and the information in the Funding Authorization and Certificate of Expenditure (FACE) forms are clearly linked to the signed rolling workplans and the Government request forms (*Plan Operativo Annual*).

Target date for completion: May 2014

Responsible staff members: Deputy Representative

Contract management

The audit reviewed the office's controls over contracting, both of individuals, and of institutional contracts (that is, contracts for services with commercial companies or other entities). The audit reviewed a sample of 11 contracts for services with the office, including six individual consultants and five institutional contractors. The following was noted.

Individual contracts: There were adequate controls in the selection and award of contracts in all 11 cases reviewed. There had been four other instances in 2013 in which consultants started working two months prior to the signing of their contracts and before the finalization of the recruitment process. However, the office had already noted this irregularity and had itself informed the audit of it. The office had discussed it with the Regional Office and action had been taken to address the issue prior to the audit.

Institutional contracts: The audit found shortcomings in two out of five institutional contracts sampled. In one instance, there were four contracts issued in 2012 and 2013 to one company amounting to US\$ 130,300. The review of the contracting process noted that all four contracts were signed late, two to four months after the start of the work. The contractor started working before confirming in writing its acceptance of the terms of the contract terms and conditions.

Furthermore, the audit noted that although three of the four contracts issued exceeded the office's threshold for review by the CRC, they were not presented to it as required by UNICEF policy. A CRC meeting took place on 29 November 2013 to support the two contracts issued in 2013, and *post-facto* approval was obtained on 2 December 2013, at the start of audit. As part of the CRC meeting documentation, a note for the record (NFR) was issued making reference to UNICEF Financial and Administrative Policy 5, Supplement 6, para 28 regarding *post-facto* notifications to CRC. However, *post-facto* notification to a CRC is a procedure meant for specific exceptions that the audit did not consider applied in this instance. Moreover the note for record was provided by the chair of the CRC meeting, resulting in lack of segregation of duties.

For the second contractor, three contracts were issued amounting to US\$ 85,000. The contracts were signed late, with delays of up to two weeks. The contractor also started work before confirming in writing its acceptance of the contract terms and conditions.

In 2013 a one-year contract was awarded to the company that exceeded the office CRC limit but was not reviewed by the committee before it was awarded to the contractor. Again, *post-facto* approval was obtained at the start of audit, but the audit did not think this was correct use of that procedure. Also, once again, the note for the record was provided by the chair of the CRC meeting, resulting in a lack of segregation of duties. In 2012, two contracts were issued for the same services with the same vendor, and cumulatively exceeded the office CRC financial limit. Splitting the contracts in two had allowed to the office to avoid exceeding CRC financial limits and avoid CRC review.

Agreed action 8 (medium priority): The office should strengthen its contracting process by:

- i. Establishing clear procedures to ensure that eligible contracts are reviewed by the contracts review committee (CRC) before they are awarded and that they are signed before the start of the work.
- ii. Ensure that all *post-facto* notifications to the CRC are made and recorded in accordance with UNICEF policy.
- iii. Clarify the roles of the CRC chair and members to ensure adequate segregation of duties, and avoid conflicts of interest.

Target date for completion: May 2014

Responsible staff members: Chief of Operations

Vendor master records

UNICEF's Supply Manual provides guidance on the creation and maintenance of vendor records in VISION, including the identification and/or avoidance of errors. An office should ensure the completeness of the vendor's details in the master record – especially the payment transaction and banking details, as this information is required for processing payments. Only accredited vendors should be maintained in the system. It is also important to avoid duplication, as this could result in duplicate payments and/or the use of incorrect or incomplete information when dealing with suppliers. It could also lead to cash disbursements to implementing partners that already have advances outstanding for more than six months.

The audit noted that new master records had been created without checking for existing records for that vendor. In 2013, the office had begun reviewing previous vendor master records and ensuring that the vendor did not exist, and had also introduced a process of blocking existing duplicated and obsolete vendor master records. However, the audit review noted that 10 out of 20 duplicated vendors were still active. There was no evidence that the office had established a periodic review of the vendor master records.

Agreed action 9 (medium priority): The office has agreed to:

- i. Strengthen identification of vendors with multiple master records, ascertain their validity, and block and mark for deletion the master records that are considered invalid or duplicated.
- ii. Periodically review the vendor master records in order to detect and prevent duplications, and remove those that will not be used again.

Target date for completion: May 2014

Responsible staff member: Chief of Operations

Business Continuity Plan

According to Executive Directive 2007/006, all UNICEF offices must be able to maintain continuity of critical functions during and following a disaster and/or crisis, and must have a Business Continuity Plan (BCP). The latter is an important safeguard to ensure that a UNICEF office can continue to perform essential operations under all conditions. The office had updated its BCP in 2013, but had not tested or approved the updated version. Also, it did not include the Cochabamba and Sucre zone offices.

Agreed action 10 (medium priority): The office agrees to update its Business Continuity Plan (BCP) to include zone offices and ensure that the revised BCP is approved and tested.

Target date for completion: May 2014

Responsible staff members: Chief of Operations

Operations support: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over operations support, as defined above, were generally established and functioning during the period under audit.

Annex A: Methodology, and definitions of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. It also visited UNICEF locations and supported programme activities. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions, and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee's (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit, and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

- High:** Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.
- Medium:** Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.
- Low:** Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusions

The conclusions presented at the end of each audit area fall into four categories:

[Unqualified (satisfactory) conclusion]

Based on the audit work performed, OIAI concluded at the end of the audit that the control

processes over the country office [*or audit area*] were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over [audit area], as defined above, were generally established and functioning during the period under audit.

[Qualified conclusion, strong]

Based on the audit work performed, OIAI concluded that the controls and processes over [audit area], as defined above, needed improvement to be adequately established and functioning.

[Adverse conclusion]

Based on the audit work performed, OIAI concluded that the controls and processes over [audit area], as defined above, needed **significant** improvement to be adequately established and functioning.

[Note: the wording for a strongly qualified conclusion is the same as for an adverse conclusion but omits the word “significant”.]

The audit team would normally issue an **unqualified** conclusion for an office/audit area only where none of the agreed actions have been accorded high priority. The auditor may, in exceptional circumstances, issue an unqualified conclusion despite a high-priority action. This might occur if, for example, a control was weakened during a natural disaster or other emergency, and where the office was aware of the issue and was addressing it. Normally, however, where one or more high-priority actions had been agreed, a **qualified** conclusion will be issued for the audit area.

An **adverse** conclusion would be issued where high priority had been accorded to a significant number of the actions agreed. What constitutes “significant” is for the auditor to judge. It may be that there are a large number of high priorities, but that they are concentrated in a particular type of activity, and that controls over other activities in the audit area were generally satisfactory. In that case, the auditor may feel that an adverse conclusion is not justified.